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TAGS: [ENRG](#) [ECON](#) [PGOV](#) [EU](#) [BG](#) [GR](#) [HU](#) [RS](#) [SL](#) [SB](#) [IT](#) [AS](#)  
SUBJECT: SOUTH STREAM - BACKGROUND FOR POSTS' USE

REF: A. ATHENS 1256  
[1](#)B. 07 STATE 150552

Classified By: DAS Judy Garber for reasons 1.5(B) and (D)

[1](#)1. (U) Department is aware that posts do or may contend with questions about South Stream. In the interest of keeping posts apprised of Washington thinking on this issue, we offer the below background on South Stream for your use in discussing the issue with host governments. This background supersedes Reftel B talking points. Posts should not "deliver a demarche" based on this, but rather draw on points when asked about South Stream, when discussing the use of European Energy Security, and when advocating U.S.-supported approaches (Southern corridor, Nabucco, TGI, etc.). Posts should also avoid public/media discussion of these views, specifically on South Stream beyond general points advocating energy independence and diversity as well as our concerns about energy monopolies. Thus, Posts should not/leave text of below background with host governments as a non-paper. The Department welcomes reporting on this topic. Please direct questions to EUR/ERA Erin McConaha or Ben Rockwell or EEB/ESC/IEC/EPC [1](#)J. Larry Wright.

#### BACKGROUND

[1](#)2. (C) The following points are background for Posts' use:

-- Washington has concerns about the proposed South Stream pipeline that bear reflection by European governments, especially monopoly control over energy. This policy is anti-monopoly in nature, not anti-Russian.

-- U.S. concerns over South Stream are threefold: (1) it is unlikely to significantly enhance diversification or sources of supply; (2) it largely serves to bypass Ukraine; and (3) it is designed to undercut new and significantly more cost effective gas deliveries from the Caspian to Europe via the Southern Corridor.

-- Over the course of the last year, Russia has concluded agreements on South Stream with Serbia, Bulgaria, Hungary, and Greece. More recently, Greece has ratified the South Stream agreement and Moscow is courting Austria, the last link in the chain.

-- The Russia-Georgia conflict, meanwhile, has further focused some European capitals on the potential political vulnerabilities of dependence on Russian gas or gas controlled by Russia. Now is not the time for governments to conduct business as usual with Russia.

-- We encourage European governments to prioritize projects that will realize diversification of energy supply.

-- While the Nordstream pipeline is planned to transport new Russian gas production to Germany, over two-thirds of South Stream will be filled with existing gas rerouted around Ukraine. The source of any new gas remains unsecured, though Central Asia appears to be the prime focus.

-- The Southern Corridor can deliver new gas supplies from Central Asia to Europe for 40 to 50 percent cheaper than South Stream. South Stream faces enormous technical and financial challenges, with Gazprom's own construction estimates running to 20 billion dollars.

-- Rerouting extant gas does not enhance European security of supply. The real potential for Russian production shortfalls compound this concern. By contrast, projects that

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access new sources of supply from the Caucasus and Central Asia (outside the control of Gazprom and the Kremlin) strengthen European energy security, as well as the security and independence of the supplier countries.

-- By bypassing Turkey, Ukraine, Moldova, and Romania, South Stream aims to undercut these countries' quest for deeper integration with their European neighbors/allies.

-- Russia already is the largest provider of imported natural gas to Europe. While European demand may make all pipelines viable in the long-run, we encourage our partners to strengthen their own negotiating leverage with Russia by developing Southern Corridor alternatives first.

-- Realizing a Southern Corridor of energy infrastructure to transport Caspian Basin oil and gas, including projects such as the Turkey-Greece-Italy Interconnector (TGI) and Nabucco, would enhance consumer countries' leverage in negotiations with Gazprom and improve the competitive health of European markets.

-- The European Commission's proposal to create a single, liquid, interconnected energy market and unbundle energy companies would also significantly improve European energy security.

-- It is important for Europe and the U.S. to work together to increase diversification of energy supplies.

-- Key to this in Europe is the realization of a "Fourth" or "Southern Corridor" to export Caspian gas directly to Europe.

-- U.S. policy is to support EU efforts to diversify sources of energy supply, as well as development of transparent, market oriented pipelines that meet the best international practices for governance, transparency, and environmental safety.

-- This is consistent with the 2006 St. Petersburg Global Energy Security Principles that all G-8 members pledged to uphold.

-- Our central - and long held - position is that diversification of energy supplies will benefit both

consumers and suppliers and improve European energy security.

-- Another core goal is full integration of European energy markets into a single market space.

-- A common EU internal market for gas and electricity, as envisioned in the Third Energy Package proposed by the European Commission, would increase electricity and gas interconnections between member states that would boost efficiency and reduce vulnerability to market disruptions.

-- The USG will continue to support development of new sources of gas for Europe by encouraging Western investment in Caspian gas reserves and pressing Azerbaijan and Turkey to conclude a gas transit agreement to enable supply contracts for Caspian Basin gas.

END BACKGROUND  
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